

## Explaining the Category One exclusion

Please refer to the actual policy language on the next page but, to summarize, your current sponsored E&O plan covers agents while placing business **with unless**:

- The coverage met the underwriting guidelines
- The damages would have been covered by had the correct coverage been in place

The range of coverages that this carve out could apply to are vast. An agent could be exposed to any number of E&O claims, small or large.

Again, this clause only applies to your main captive carrier business. It is present even if the agent has the sponsored plan Coverage Level three E&O policy.

The United Farmers Agents Association E&O plan does not contain this exclusion.

**The products/plans advertised herein are not sponsored, approved, or endorsed by, or otherwise affiliated with, Farmers Group, Inc.**

**INSURANCE AGENTS ERRORS AND OMISSIONS LIABILITY POLICY**

**THIS IS A CLAIMS MADE AND REPORTED POLICY AND, SUBJECT TO ITS PROVISIONS, APPLIES ONLY TO CLAIMS FIRST MADE AGAINST THE INSURED AND REPORTED TO THE COMPANY IN WRITING DURING THE POLICY PERIOD UNLESS AN EXTENDED REPORTING PERIOD APPLIES.**

**PLEASE READ THE ENTIRE POLICY CAREFULLY**

In consideration of the payment of the premium, the undertaking of the NAMED INSURED to pay the Deductible, if any, and subject to the Limit of Liability of this insurance as set forth in the Declarations, Exclusions, Conditions and other terms of this Policy, Arch Insurance Company, hereinafter referred to as the Company, agrees with the NAMED INSURED as follows:

**INSURING AGREEMENT****I. COVERAGES - PROFESSIONAL LIABILITY AND PERSONAL INJURY:****A. PROFESSIONAL LIABILITY**

The Company will pay on behalf of the INSURED all sums, which the INSURED shall become legally obligated to pay as DAMAGES because of a claim first made against the INSURED during the POLICY PERIOD or an Extended Reporting Period, if applicable, for:

1. Any negligent act, error or omission of the INSURED, or any person for whose acts the INSURED is legally liable, in rendering or failing to render PROFESSIONAL SERVICES for others in the conduct of the NAMED INSURED'S profession as a licensed Insurance Agent/Broker while there is in effect a valid Agent or District Manager Appointment Agreement between the NAMED INSURED and Farmers Insurance Exchange, but only while:
  - a. Soliciting, servicing, placing or binding business on behalf of an insurance carrier other than the Farmers Insurance Exchange; or
  - b. Soliciting, servicing, placing or binding policy coverage on behalf of Farmers Insurance Exchange unless:
    - i. The policy coverage met the underwriting guidelines of Farmers Insurance Exchange as set forth in writing by Farmers Insurance Exchange; and
    - ii. The DAMAGES would have been covered by Farmers Insurance Exchange pursuant to the terms and conditions of the subject policy coverage if such policy coverage had been in force; or
  - c. Acting in his/her capacity as a District Manager for Farmers Insurance Exchange; or
  - d. Acting as a notary public; or
  - e. Providing expert witness testimony; or

Note: Your specific Farmers' message may differ from our example. Please refer to the original email in your inbox for more information.

**Subject:** Impacts of Category 1 E&O Claims Beginning May 1  
**Date:** Tuesday, April 25, 2023

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The Farmers<sup>®</sup> organization is updating processes and launching new training beginning in May to help reduce the volume of Category 1 E&O claims and improve profitability.

The Farmers-sponsored Errors and Omissions (E&O) program is intended to help Farmers agency owners with claims arising out of an agency's errors or omissions. **Category 1 claims, however, are not covered through this program.** These claims involve a failure to bind requested coverage for eligible risks. An example would be when an agent fails to add requested rental coverage. Each year, the Farmers organization pays out millions of dollars in claim costs associated with Category 1 E&O claims involving Farmers agency owners, which has a significant impact on profitability.

Supporting the exclusive agency channel remains a constant focus and priority for us, but we expect agencies to uphold their obligation to conduct business in accordance with normal good business practice and applicable underwriting guidelines. Accordingly, our expectation is that Category 1 E&O claims are rare and unique occurrences.

## What's Changing

### Availability of Training

There is an E&O training course available to all agency owners – which is also available for all agency staff members – provided through the University of Farmers<sup>®</sup> Online (U of F). You can search in the U of F Online for Errors and Omissions Loss Prevention, or [click here](#).

### Notifications

- **Notification of E&O claims will be sent via email.** When a claim appears to have an E&O component, agency owners and territory leaders will be **notified via email** rather than a physical letter.
- **Agency owners will receive a notification for all E&O claim occurrences.**

### Retraction Requests

**Starting in May, agency owners can initiate the Retraction Request process.** Instead of asking a district manager or territory leader to initiate a Retraction Request, agency owners will have the ability to initiate the process using a new Retraction Request form. Here's how it will work:

- The Retraction Request form has been updated to now be a **fillable document**.
- It is important to use the form and also include supporting documentation when submitting the request.
- Agency owners will need to submit the Retraction Request form directly to a **designated email box** (the email boxes differ by the line of business and are provided on the form itself).
- Agency owners will be asked to copy the ASM or ASL on any Retraction Request submissions.

*\*A substantiated claim is one that has been reviewed and confirmed by Claims and Underwriting as having an agent error or omission. This designation would be made after any Retraction Request is reviewed.*

## **Impact of Category 1 E&O Claims**

**All agencies will start with a clean slate beginning May 1, 2023.** This means, if an agency had a Category 1 E&O claim prior to May 1, it will not be included in a rolling 24-month count. However, it's important to note that a new finding can take place on a claim that was opened prior to May 1, 2023. Meaning, a claim may have been opened in 2022 (or earlier), but if the finding is made after May 1, 2023, it could count towards a rolling 24-month total. If an agency has excessive substantiated Category 1 E&O claims within a 24-month period, the agency could lose their good-standing status. Generally, agency owners who are not in good standing are not eligible to participate in a number of Farmers programs, including New Agent Bonus programs, the Agency Sales and Compensation Program, Partial Series Commission Rights Purchase Opportunities, Achievement Clubs and other promotions and incentive programs. Requests to sell service and commission rights or be reassigned policies, via an Acquisition or orphan policy transfers, also may be declined.

## **Benefits**

With these actions, our hope is that avoidable claims will decrease, contributing to an overall improvement in profitability and strengthening the broader agency force. The estimated saving opportunity is significant. We appreciate your diligence in ensuring the business you write conforms to normal good business practice and underwriting standards and includes the coverages customers have requested.

## **For Questions and Where to Find Additional Information**

For more information on these changes, please review these [frequently asked questions](#).

Please reach out to the Area Sales Manager or Area Sales Leader for additional questions.

Summary of an agent's excluded E&O claim from Oct. 2021.

Pages 1-3- The group sponsored E&O plan stating the agent's E&O claim is not covered as coverage was available from the captive carrier, the insured met underwriting guidelines and the coverage would apply to the loss.

Page 4- Sent by the group sponsored E&O plan to the underlying coverage carrier denying liability for the claim

Page 6- Email from the E&O plan carrier to underlying coverage carrier stating there is no coverage under the policy and tendering the claim to underlying coverage carrier to handle by applying coverage retroactively.

Page 7- Response from underlying coverage carrier declining to reform the policy and pay the agents excluded claim.

Page 8 – follow up response from underlying coverage carrier stating that they agent's excluded claim will not be covered and the decision to defend and indemnify will only be addressed if and when the agent's insured files suit.



██████████ 2021

**Via E-Mail Only to:**

██████████@farmersinsurance.com  
██████████@farmersinsurance.com  
myclaim@farmersinsurance.com

Re:    Named Insured:                    Agents and District Managers of Farmers Insurance Exchange  
       Insured Agent:                    ██████████  
       Lancer Claim Number:            ██████████  
       Date of Loss:                      ██████/2021  
       Claimant/Farmers Insured:       ██████████  
       **Your Claim Number:**           ██████████  
       E & O Carrier:                     Arch Insurance Company

Dear Mr. ██████████:

Please be advised that Lancer Claims Services (“Lancer”) is the third-party claims administrator assigned to investigate the captioned matter on behalf of agent an Agent of the Farmers Insurance Exchange (“Farmers”) and an insured under the Company Sponsored Insurance Agents Errors and Omissions Policy issued by Arch Insurance Company (“Arch”).

The Claimant, ██████████ is alleging that our insured (the agent) failed to provide adequate lost income coverage for his property and that as a result he has incurred or will incur damages in excess of the coverage provided,

We have been advised by our insured agent, that higher limits could have been provided to the Claimant under their policy. The Claimant contends that such coverage would have been provided if not for the error of their agent ██████████ in failing to offer or bind such higher limits.

We would like to bring your attention to agent ‘s Errors & Omissions Policy:

**INSURANCE AGENTS  
ERRORS AND OMISSIONS LIABILITY COVERAGE**

**THIS IS A CLAIMS MADE AND REPORTED POLICY AND, SUBJECT TO ITS PROVISIONS, APPLIES ONLY TO CLAIMS FIRST MADE AGAINST THE INSURED AND REPORTED TO THE COMPANY IN WRITING DURING THE POLICY PERIOD UNLESS AN EXTENDED REPORTING PERIOD APPLIES.  
PLEASE READ THE ENTIRE POLICY CAREFULLY**

In consideration of the payment of the premium, the undertaking of the NAMED INSURED to pay the Deductible, if any, and subject to the Limit of Liability of this insurance as set forth in the Declarations, Exclusions, Conditions and other terms of this Policy, Arch Insurance Company, hereinafter referred to as the Company, agrees with the NAMED INSURED as follows:

INSURING AGREEMENT

I. COVERAGES - PROFESSIONAL LIABILITY AND PERSONAL INJURY:

A. PROFESSIONAL LIABILITY

The Company will pay on behalf of the INSURED all sums which the INSURED shall become legally obligated to pay as DAMAGES because of a claim first made against the INSURED during the POLICY PERIOD or an Extended Reporting Period, if applicable, for:

1. Any negligent act, error or omission of the INSURED, or any person for whose acts the INSURED is legally liable, in rendering or failing to render PROFESSIONAL SERVICES for others in the conduct of the NAMED INSURED'S profession as a licensed Insurance Agent/Broker while there is in effect a valid Agency or District Manager contract between the NAMED INSURED and Farmers Insurance Exchange, but only while:
  - a. Soliciting, servicing, placing or binding business on behalf of an insurance carrier other than the Farmers Insurance Exchange; or
  - b. Soliciting, servicing, placing or binding policy coverage on behalf of Farmers Insurance Exchange unless:
    - i. The policy coverage met the underwriting guidelines of Farmers Insurance Exchange as set forth in writing by Farmers Insurance Exchange; and
    - ii. The DAMAGES would have been covered by Farmers Insurance Exchange pursuant to the terms and conditions of the subject policy coverage if such policy coverage had been in force; or

\* \* \* \* \*

We believe this matter is not a properly referred E & O claim under the Arch policy as it is our understanding that the coverages claimant allege should have been offered and provided met the

underwriting guidelines of Farmers Insurance and that the claimed higher lost income limits would have been provided, if not for the agents alleged error in failing to offer or bind such limits. As such, the E & O insuring agreement does not apply in this case, this matter becomes a "Coverage Question (Category 1)" claim, as the agent has allegedly made a mistake, but the risk is one that Farmers would have written and the damages would have been paid by the Farmers policy.

We also point out that whether or not you conclude that agent 's agency erred or not, is a liability position and does not change the fact that this is a Coverage Question matter that should be handled by the Sponsoring Company, as there is an allegation that a mistake occurred.

It is your decision as to whether or not you want to make any payments in the underlying claim or decline the potential E & O claim brought by your policyholder; however, it is expected that as this matter falls outside of the Insuring Agreement for an E & O claim, that Farmers will defend agent if it decides not to reform the underlying policy, or declines the additionally claimed damages and this matter then becomes litigated.

If you still feel that you need a better understanding of a Coverage Question claim, please contact a Farmers E & O specialist in your office or region to discuss. If you disagree with our position, please forward the appropriate documentation in support of your position. We ask that you provide Lancer and Arch with a written acknowledgement of your receipt of this correspondence and the decision as to how this matter will be handled. Thanking you in advance for your prompt attention to this most urgent matter.

If you disagree with our position, please forward the appropriate documentation in support of your position. Please provide us confirmation of your acceptance in writing.

We thank you in advance for your prompt attention to this most urgent matter.

Very truly yours,

[Redacted Signature]

[Redacted Title]

Lancer Claims Services

681 S. Parker St.

Orange, CA 92868

714 [Redacted], Fax 714 [Redacted]

cc: [Redacted]

[REDACTED]

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**From:** [REDACTED]  
**Sent:** Friday, [REDACTED] 2021 4:37 PM  
**To:** [REDACTED]@farmersinsurance.com [REDACTED]@farmersinsurance.com  
**Cc:** myclaim@farmersinsurance.com; [REDACTED]  
**Subject:** Lancer Claim Number: [REDACTED], Your Claim Number: [REDACTED], Claimant/Farmers Insured: [REDACTED]  
**Attachments:** [REDACTED].Cat1Tender.pdf

Dear [REDACTED]:

Please be advised that Lancer Claims Services ("Lancer") is the third-party claims administrator assigned to investigate the captioned matter on behalf of agent an Agent of the Farmers Insurance Exchange ("Farmers") and an insured under the Company Sponsored Insurance Agents Errors and Omissions Policy issued by Arch Insurance Company ("Arch").

Please accept the attached as our formal tender of this category 1 coverage question matter.

If you feel that you need a better understanding of this Coverage Question claim, please contact a Farmers E & O specialist in your office or region to discuss. If you disagree with our position, please forward the appropriate documentation in support of your position. We ask that you provide Lancer and Arch with a written acknowledgement of your receipt of this correspondence and the decision as to how this matter will be handled. Thanking you in advance for your prompt attention to this most urgent matter.

[REDACTED]  
Lancer Claims Services  
A Division of Brown & Brown Program Insurance Services, Inc.  
Third Party Administrator for Arch Insurance Company  
681 S. Parker St.  
Orange, CA 92868  
714-[REDACTED], Fax 714-[REDACTED]

[REDACTED]

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**From:** [REDACTED]@farmersinsurance.com>  
**Sent:** Tuesday, [REDACTED] 2021 2:40 PM  
**To:** [REDACTED]  
**Subject:** Farmers [REDACTED] / Lancer [REDACTED]

**[External]**

Hello,

In reference to the above claim numbers, the policy has been reviewed and we have declined to extend any additional coverage to the insured, [REDACTED], beyond the policy terms and current limits. There is no support of agency error. This is in reference to the email received with the Lancer response.

Thank you,

\_\_\_\_\_  
[REDACTED]  
*Coverage Department*

[REDACTED]  
Farmers Insurance Exchange  
Foremost Insurance Company Grand Rapids, Michigan  
Please visit our [claim portal](#) to view the status and manage your claim online.

[REDACTED]

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**From:** [REDACTED]@farmersinsurance.com >  
**Sent:** Monday, [REDACTED] 2021 11:43 AM  
**To:** [REDACTED]  
**Subject:** RE: Farmers [REDACTED] / Lancer [REDACTED]

**[External]**

We agree this is a Coverage Question E&O matter (Category 1). We have completed our investigation and determined that agent error is not supported. The final decision will be made regarding offering a full or partial defense and indemnity to the agent will be made if and when a lawsuit is filed.

[REDACTED]  
[REDACTED]  
*Coverage Department*

[REDACTED]  
Farmers Insurance Exchange  
Foremost Insurance Company Grand Rapids, Michigan  
Please visit our [claim portal](#) to view the status and manage your claim online.

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**From:** [REDACTED]@lancerclaims.com >  
**Sent:** Monday, [REDACTED] 2021 1:14 PM  
**To:** [REDACTED]@farmersinsurance.com >  
**Subject:** [EXTERNAL] RE: Farmers [REDACTED] / Lancer [REDACTED]

Will Farmers be inclined to defend their agent should litigation be filed addressing the issues?

Lancer Claims Services  
A Division of Brown & Brown Program Insurance Services, Inc.  
Third Party Administrator for Arch Insurance Company  
681 S. Parker St.  
Orange, CA 92868  
714-██████████, Fax 714 ██████████

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**From:** ██████████@farmersinsurance.com]  
**Sent:** Monday, ██████████ 2021 10:48 AM  
**To:** ██████████@lancerclaims.com>  
**Cc:** ClaimsDocument2 <ClaimsDocuments2@farmersinsurance.com>  
**Subject:** RE: Farmers ██████████ / Lancer ██████████

**[External]**

Hello,

Higher limits were available, however were not requested or bound prior to the loss. The current policy limit applies for the loss and no other limit will be considered.

██████████  
Coverage Department

██████████  
Farmers Insurance Exchange  
Foremost Insurance Company Grand Rapids, Michigan  
Please visit our [claim portal](#) to view the status and manage your claim online.

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**From:** [REDACTED]@lancerclaims.com>  
**Sent:** Monday, [REDACTED] 2021 12:29 PM  
**To:** [REDACTED]@farmersinsurance.com>  
**Subject:** [EXTERNAL] RE: Farmers [REDACTED] / Lancer [REDACTED]

Ms. [REDACTED]

Thank you for your response. That answers the liability portion of the claim, we need to know if Farmers accepts this matter as a category 1 claim?

- Were applicable higher limits available – acceptable to underwriting?
- Would the higher limits have applied to the loss?

Will Farmers be inclined to defend their agent should litigation be filed addressing the issues?

[REDACTED]  
Lancer Claims Services  
A Division of Brown & Brown Program Insurance Services, Inc.  
Third Party Administrator for Arch Insurance Company  
681 S. Parker St.  
Orange, CA 92868  
714-[REDACTED], Fax 714-[REDACTED]

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**From:** [REDACTED]@farmersinsurance.com]  
**Sent:** Tuesday, [REDACTED] 2021 2:40 PM  
**To:** [REDACTED]@lancerclaims.com>  
**Subject:** Farmers [REDACTED] / Lancer [REDACTED]

**[External]**

Hello,

In reference to the above claim numbers, the policy has been reviewed and we have declined to extend any additional coverage to the insured, [REDACTED] beyond the policy terms and current limits. There is no support of agency error. This is in reference to the email received with the Lancer response.

Thank you,

[REDACTED]  
*Coverage Department*

[REDACTED]  
Farmers Insurance Exchange

Foremost Insurance Company Grand Rapids, Michigan

Please visit our [claim portal](#) to view the status and manage your claim online.



██████████ 2021

██████████  
████████████████████  
████████████████████

Re Lancer Claim No.: ██████████  
Date of Loss: ████████/2021  
Insured: ████████████████████  
Claimant: ████████████████████  
E & O Carrier: Arch Insurance Company

Dear ██████████

Lancer Claims Services is the third party claims administrator for Arch Insurance Company with respect to the above captioned matter. We have been retained to handle the investigation of this matter.

Our investigation into this matter revealed no information that supports a finding of liability against our insured ██████████ and we are therefore compelled to decline your claim against him.

We understand that this matter arises from contentions that our insured failed to provide you a policy with sufficient lost income coverage limits. You have a responsibility to read and review your policy upon receipt to ensure you receive the coverages you need and/or requested. In this case you would have received a copy of your policy from Farmers Insurance on or about 09/11/2020. The policy declaration pages would have identified the limits and coverages being provided. We have no evidence that prior to the policy being bound that you had requested higher limits, or that in the 300+ days after the policy was bound prior to the loss, that you requested any changes to the coverages or limits being provided.

This letter is based on the information we have received to date, and is not intended as an exhaustive recitation of all of the provisions of the Policy that might apply. Lancer and Arch do not waive any other rights or defenses to coverage that may be applicable under the Company Sponsored Insurance Agents Errors and Omissions Policy, whether or not such right or defenses are specifically set forth herein. Lancer and Arch specifically reserve the right to amend or supplement the positions taken in this letter based upon information not yet provided to or developed by Lancer or Arch. All rights in connection with this loss are expressly reserved, whether asserted herein or not.

If you feel that any aspect of this claim has been overlooked, or if you have any additional factual material you wish for us to consider, please do not hesitate to notify us or produce such documentation. Lancer and Arch will be glad to consider any further information you wish to submit.

Lancer Claims Services  
CA Insurance Lic.# 2B02587 ● 681 S. Parker Street, Suite 300, Orange, CA 92868-4719  
● P.O. Box 7048, Orange, CA 92863-7048  
Phone: 714-939-0700 ● Fax: 714-978-8023

Sincerely,

[REDACTED]

[REDACTED]

Director  
Lancer Claims Services  
A Division of Brown & Brown Insurance Services Inc.  
Third Party Administrator for Arch Insurance Company  
P.O. Box 7048  
Orange, CA 92863  
714-[REDACTED]

cc: [REDACTED]

## What is a “Class 1” E & O claim?

As a Farmers agent I unfortunately found out. For 24 years as a Farmers agent I had assumed the E and O coverage I have been paying \$481.00 a month for would take care of any unintentional error or omission I or my staff would make.

What I found out when filing a claim is that if coverage is available from Farmers and not placed with Farmers, your error and omission claim is excluded. Here is what happened to me.

My client had a BOP policy with us for many years. The insured notified me that someone hit his electrical fence in a hit and run accident. I told him to file the claim assuming there was coverage due to the fence being attached to the building.

After investigation commercial claims told me the claim was being denied, that a special endorsement for an outdoor fence was needed to provide coverage. I thought that if the fence was bolted to the structure that it would be considered building property, which claims stated is incorrect. My client called and said he has not heard from the adjuster and his fence is still down. I told him that Farmers was going to deny his claim due to no coverage for the fence. I indicated that I had made an error and that I would file a claim with my professional liability carrier and we would attempt to resolve it in that way. I also told him that when the police report came if we could identify the party that caused the damage we could possibly collect from their insurance.

I filed the notice of claim with Arch. After another week Arch told me my E & O claim was being denied due to it being a “class 1” claim. I asked for an explanation.

The Arch adjuster told me that Farmers E and O policy has an exclusion that states if coverage is available from Farmers and it was not placed with Farmers, the group E & O policy will not cover my loss. The adjuster for Arch told me to notify Farmers claims and see if they would retroactively add coverage to the client’s policy. I spoke to the supervisor with commercial claims only to have them deny it once again. Claims stated that when I wrote the policy I did not tell the client specifically he was not covered for the fence being hit by a vehicle. I told him it was so long ago I don’t remember the conversation at the time and that I told the client he was “covered” assuming his fence was covered under the building. Claims said they were not going to reverse their decision.

I tried to contact my district manager and DMM, neither of which was available to discuss it at length. The DMM indicated he was being transferred and I would have to talk to the new DMM or call his supervisor. All of this is going on and my client’s fence is still down after two and half weeks. I called the DMM’s superior who arranged a conference call with the Farmers claims supervisor and told me they were not going to retroactively place coverage on the insured’s policy.

The police report was no help as the vehicle had hit ran and no plates were taken. I had a decision to make. This is a client whom I had developed a friendship through the years, has 14 or so policies with me and has referred at least 20 policies to me through the years. Do I take care of this myself or go to small claims with him?

Arch told me to notify them if the client takes me to court. I asked that if I lost in court would they pay. They said not necessarily. The client forwarded a \$3500 bill for the fence. I subtracted the \$1000 deductible that the insured’s policy called for in the event of loss and paid my client \$2500 from my own pocket.

I was embarrassed for myself and most of all for Farmers Insurance Group, who didn't stand behind me or a loyal client for over 20 years. I love Farmers Insurance, they have done some great things for me, my family, and my clients through the years and I am grateful and blessed to be a Farmers Agent.

However, the E and O policy written at Farmers direction excludes mistakes involving an omission of Farmers coverage. This gives Farmers the discretion over whether or not Farmers will place coverage retroactively for the insured, and in essence, cover an agent's E & O loss or not rather than the E & O insurance policy I pay dearly for each month.

What does our group E and O policy really cover? I am afraid I found out the hard way that the answer is not much.

Signed,

Charles Phillips  
Chula Vista, CA  
Loyal agent since 1984

As stated above, the Policy does not apply to claims that fall within the Insuring Agreement 1A 1b. That provision establishes an exception from coverage for claims arising out of the soliciting, servicing or binding policy coverage if the policy coverage met Farmer's written underwriting guidelines and if the damages would have been covered by said policy if it was in force. Based upon our investigation to this point, it appears that the claim involves a loss that would fall within the above policy provision. Accordingly, Arch believes the claim is precluded from coverage. Therefore, Arch specifically declines to defend or indemnify you as to the Claim.

**PLEASE ADVISE LANCER IMMEDIATELY IF FARMERS/FOREMOST DECLINE TO DEFEND OR INDEMNIFY YOU.**

By continuing with the investigation or by undertaking any other action ARCH or Lancer deems necessary, ARCH and Lancer do not waive any defense to coverage that may exist to this claim under the Policy or the law, whether asserted herein or not. Lancer and ARCH do not waive any defense to coverage not asserted herein, and may assert any such defense at any time.

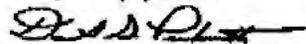
If you believe that any aspect of this claim has been overlooked, or have any additional factual material you wish for us to consider, please do not hesitate to notify the undersigned of your concerns. Lancer and ARCH will consider any further information you wish to submit.

This letter is based on the information we have received to date, and is not intended as an exhaustive recitation of all of the provisions of the policy that might apply. Lancer and ARCH do not waive any other rights or defenses to coverage that may be applicable under the ARCH policy whether or not such right or defenses are specifically set forth herein. Lancer and ARCH specifically reserve the right to amend or supplement the positions taken in this letter based upon information not yet provided to or developed by Lancer or ARCH. All rights in connection with this loss are expressly reserved, whether asserted herein or not.

If you believe that any part of this claim has been wrongfully denied or rejected, you may contact the Department of Insurance for California. You can reach them at California Department of Insurance, 300 South Spring Street, South Tower, Los Angeles, CA 90013.

Should you have any questions regarding this matter, please do not hesitate to contact Sarita Sehdev at (714) 939-7345.

Very truly yours,



David S. Perlmutter, AIC  
Senior Director - Coverage  
Lancer Claims Services for  
Arch Insurance Company  
DSP:lc77549DL

cc: Scott Scheller



November 13, 2015

**Via Regular Mail and E-Mail Delivery**

[REDACTED]  
National Document Center  
P.O. Box 268994  
Oklahoma City, OK 73126-8994

Re: Insured Agent: [REDACTED]  
Lancer Claim Number: [REDACTED]  
Date of Loss: [REDACTED]  
Claimant/Farmers' Insured: [REDACTED]  
Farmers Claim Number: [REDACTED]  
E & O Carrier: Arch Insurance Company

Dear Mr. [REDACTED]

Lancer Claims Services (Lancer) is the third-party administrator assigned to investigate the captioned matter on behalf of [REDACTED] as an Agent of the Farmers Insurance Exchange (Farmers) and an insured under the Sponsoring Company Professional Liability Insurance policy issued by Arch Insurance Company (Arch). In that capacity, the claim is being referred to you as a Coverage (Category 1) Question Claim to be handled accordingly by the Sponsoring Company.

We understand that the Farmers insured alleges that the Insured Agent failed to procure higher coverage limits after the updates and refurbishments were completed on the risk associated in the above-captioned loss.

As the Farmers policy has responded to the claim and there is an allegation the Insured Agent failed to procure the proper coverage for the Farmers insured that would have afforded coverage for this loss, we believe this situation is a Coverage Question (Category 1) E & O claim and are referring this matter back to Farmers for handling. At this time, we would like to bring your attention to [REDACTED]'s Errors & Omissions Policy, which reads in pertinent part as follows:

**INSURANCE AGENTS  
ERRORS AND OMISSIONS LIABILITY COVERAGE**

**THIS IS A CLAIMS MADE AND REPORTED POLICY AND, SUBJECT  
TO ITS PROVISIONS, APPLIES ONLY TO CLAIMS FIRST MADE**

Lancer Claims Services  
A Division of Brown & Brown Program Insurance Services, Inc.  
CA Insurance Lic.# 2B02587 • 681 S. Parker Street, Suite 300, Orange, CA 92868-4719  
• P.O. Box 7048, Orange, CA 92863-7048  
Phone: 714-939-0700 • Fax: 714-978-8023

**AGAINST THE INSURED AND REPORTED TO THE COMPANY IN WRITING DURING THE POLICY PERIOD UNLESS AN EXTENDED REPORTING PERIOD APPLIES.**

**PLEASE READ THE ENTIRE POLICY CAREFULLY**

In consideration of the payment of the premium, the undertaking of the NAMED INSURED to pay the Deductible, if any, and subject to the Limit of Liability of this insurance as set forth in the Declarations, Exclusions, Conditions and other terms of this Policy, Arch Insurance Company, hereinafter referred to as the Company, agrees with the NAMED INSURED as follows:

**INSURING AGREEMENT**

**I. COVERAGES - PROFESSIONAL LIABILITY AND PERSONAL INJURY:**

**A. PROFESSIONAL LIABILITY**

The Company will pay on behalf of the INSURED all sums which the INSURED shall become legally obligated to pay as DAMAGES because of a claim first made against the INSURED during the POLICY PERIOD or an Extended Reporting Period, if applicable, for:

1. Any negligent act, error or omission of the INSURED, or any person for whose acts the INSURED is legally liable, in rendering or failing to render PROFESSIONAL SERVICES for others in the conduct of the NAMED INSURED'S profession as a licensed Insurance Agent/Broker while there is in effect a valid Agency or District Manager contract between the NAMED INSURED and Farmers Insurance Exchange, but only while:
  - a. Soliciting, servicing, placing or hinding business on behalf of an insurance carrier other than the Farmers Insurance Exchange; or
  - b. Soliciting, servicing, placing or binding policy coverage on behalf of Farmers Insurance Exchange unless:
    - i. The policy coverage met the underwriting guidelines of Farmers Insurance Exchange as set forth in writing by Farmers Insurance Exchange; and

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- ii. The DAMAGES would have been covered by Farmers Insurance Exchange pursuant to the terms and conditions of the subject policy coverage if such policy coverage had been in force; or

There should have been coverage in place that would have responded to your insured's claimed damages on their home had it been in force. As such, this matter is not a properly referred E&O claim under the Arch policy. As a reminder, a Coverage Question (Category 1) claim is a claim in which "the agent has allegedly made a mistake, but the risk is one that Farmers would have written and the damages would have been paid by the Farmers' policy." We also point out that whether or not Farmers concludes that Mr. [REDACTED]'s office erred or not is a liability position and does not change the fact that this is a Coverage Question matter that should be handled by the Sponsoring Company as there is an allegation that a mistake occurred. It is Farmers determination as to whether or not it wants to make any payments or defend the potential E & O claim brought by the policyholder; however, it is expected that as this matter falls outside of the Insuring Agreement for an E&O claim that Farmers will defend any potential lawsuit against the agent should it decide not to reform the underlying policy to respond to the claimed damages.

If you still feel that you need a better understanding of a Coverage Question claim, please contact a Farmers E & O specialist in your office or region to discuss. If you disagree with our position, please forward the appropriate documentation in support of your position. We ask that you provide Lancer and Arch with a written acknowledgement of your receipt of this correspondence and the decision as to how this matter will be handled. Thanking you in advance for your prompt attention to this most urgent matter.

Sincerely,

[REDACTED]  
Director  
Lancer Claims Services,  
a division of Brown & Brown Program Insurance Services, Inc.  
for Arch Insurance Company

cc: [REDACTED]